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THE COTTON SITUATION

Summary

Further reductions in the relatively small stocks of "free" American cotton, a continued high rate of domestic mill consumption, the smallest domestic exports in more than 50 years, and an advance in domestic prices to the highest point in nearly 2 years were important features of the cotton situation during April and the first 3 weeks of May, according to the Bureau of Agricultural Economics.

Domestic stocks of about 3,650,000 bales of "free" American cotton as of May 1 were about two-fifths smaller than a year earlier, and foreign stocks of American cotton were probably one-third less than the stocks on May 1 last year. These relatively small, and declining, stocks together with a continued high rate of domestic cotton mill activity and a fairly well maintained rate of mill activity in foreign countries, contributed to the advance of 1 cent per pound in domestic cotton prices from the second week of April to the third week of May.

Domestic cotton consumption adjusted for seasonal variation declined somewhat from March to April, but consumption of 547,000 bales in April was one-third larger than in April last year. It was the third largest April consumption in 10 years. Trade reports indicate that in the first half of May the rate of consumption was about equal to that for April.

Mill activity in foreign countries appears to have been about unchanged in recent weeks. To an unusual extent, however, mill activity apparently has been sustained by earlier orders or by Government contracts for military and

defense types of goods. In Europe, orders other than those placed by Government agencies apparently declined considerably in April, reflecting unsettled political conditions and the unusual relation between prices of cotton for immediate and nearby delivery and those for delivery after the new crop begins to move.

Exports of 178,000 bales of American cotton in April were only 47 percent as large as a year earlier, and the smallest since 1895. The unusually narrow spread between prices of American cotton in domestic and foreign markets probably was of considerable importance in restricting exports in April. At one time during the month the spread between the price of American Middling 7/8 at New Orleans and at Liverpool was only 0.60 cents per pound. For the entire month the spread averaged only about 1 cent. At the present time a spread between New Orleans and Liverpool spot prices of nearly 1-3/4 cents is necessary in order to make it profitable for a merchant to purchase cotton on an ex-warehouse basis in New Orleans and deliver it in Liverpool.

PRICES

Domestic spot prices highest since August 1937

Further reduction in the stocks of "free" American cotton, proposals for a cotton export subsidy, and the continued high level of domestic mill activity, contributed to the substantial advance in cotton prices during the latter part of April. Prices continued to advance in May, the average price of Middling 7/8 cotton in the ten designated markets increasing from 8.74 cents on April 29 to 9.42 cents on May 24. On the latter date, cotton was more than 1 cent per pound higher than on April 15, and the highest since late August 1937. The advance in May was apparently attributable to the still further reduction in stocks of "free" American cotton and possibly to a slightly more favorable outlook as to economic and political conditions in Europe.

Liverpool price low relative to domestic; export
subsidy proposals an important factor

On Monday, April 24, following United States press reports of prospects for a 2-cent cotton export subsidy, the spread between the spot price of American Middling 7/8" at New Orleans and the Liverpool price narrowed to 0.60 cents. (See table 1). This compares with an average spread of almost 1-3/4 cents during the 5 years ended July 1938. Probably few times, if ever, since the cotton exchanges in the United States and Liverpool first began the frequent exchange of price quotations by trans-Atlantic cable (75 years or more ago) has the spread between spot prices in the United States and Liverpool markets been as narrow as on April 24. Over a period of considerable length and under normal conditions the spread between prices of an important quality, such as Middling 7/8" in domestic and foreign markets, would be expected to average about the same as the expenses involved in purchasing spot cotton in the domestic market on a gross weight basis and delivering it to the buyer in Liverpool on a net weight basis. Over relatively short periods differences in the relative supply and demand conditions as to spot cotton in two given markets at times may cause the spread to be somewhat different from the existing expenses involved even when there are no unusual factors in the situation such as a proposed export subsidy.

Table 1.- Cotton, American Middling 7/8": Price per pound at
New Orleans and Liverpool, specified periods

Period	Liverpool	New Orleans	Spread (Liverpool over New Orleans)
	Cents	Cents	Cents
5-year average			
1933-34 to 1937-38.....	13.03	11.32	1.71
1938-39			
Aug.-to Dec.....	9.93	8.43	1.50
Jan.....	10.10	8.62	1.48
Feb.....	10.02	8.60	1.42
Mar.....	10.17	8.69	1.48
Apr.....	9.67	8.61	1.06
Apr. 14.....	9.61	8.43	1.18
Apr. 21.....	9.73	8.62	1.11
Apr. 24.....	9.44	8.84	0.60
Apr. 28.....	9.75	8.97	0.78
May 5.....	10.30	9.08	1.22
May 12.....	10.40	9.20	1.20
May 19.....	10.80	9.47	1.33
May 23.....	10.92	9.41	1.51
May 24.....	10.67	9.52	1.15

Compiled from reports of the New Orleans and Liverpool Cotton Associations
and cables to this Bureau from Liverpool.

In late April and early May, as opposition developed to the proposed subsidy, the spread between New Orleans and Liverpool widened and by May 15

the spread was back to 1.46 cents. On May 23 it was 1.51 cents and on May 24 again declined to 1.15 cents. These recent spreads indicate that the cotton trade is, to some extent, at least, still discounting the possibility of an export subsidy. It is quite possible, however, that the competition for the existing small export business this season (see Export section) may also be a factor contributing to these unusually narrow spreads.

American cotton prices again increase relative to foreign growths

About the time that a tentative agreement upon a 2-cent export subsidy was reported in the press, the Liverpool price of American cotton reached a point lower in relation to 3 important types of Indian cotton than for several months (see price relationships as of April 21 and April 28 in table 2.) In recent weeks, however, with the widening of the spread between the price of American cotton in New Orleans and Liverpool, prices of American cotton increased relative to Indian and further increased in relation to Egyptian and Brazilian. On May 12, the Liverpool price of Egyptian Uppers was lower relative to American than for any monthly average ratio since September 1923. On May 19 Brazilian Sao Paulo was lower relative to American than for any monthly average in nearly 9 years. On April 19 American was not back as high relative to Indian as the average for March, but was about as high as or higher than the average for any other month in more than 4 years.

In view of the marked changes in the relation between the prices of American and foreign growths in Liverpool (and, no doubt, in most other important foreign markets) during recent weeks and the influence of the proposals with respect to export subsidies, it seems desirable to give some additional discussion of certain types of effects produced by export subsidies such as those which have been proposed.

If exporters were paid an export subsidy, competition between buyers and sellers would cause the price of American cotton in foreign markets to be about as much lower in relation to the price in domestic markets as the amount of the subsidy. This change in the spread would normally be brought about by an increase in the domestic price and a decrease in the foreign price.

A reduction in the foreign price of American cotton resulting from an export subsidy would obviously cause the price of American cotton to decline in relation to the price of foreign growths if the price of foreign growths remained unchanged. It should be noted, however, that the inauguration of, or even the prospects for, an export subsidy would cause prices of foreign cotton to be somewhat lower than they would otherwise have been. This would be true because of the shift or prospective shift from foreign cotton to American cotton by foreign manufacturers, as a result of the change or prospective change in the price relationships. The net change in the comparative prices resulting from a subsidy, therefore, would not be in exact proportion to the amount of the subsidy. Another reason is the fact that, as already indicated, the foreign price of American cotton would not be reduced by the full amount of the subsidy because of the increase in the United States price. The more nearly that foreign grown cotton approximates American cotton in quality, the smaller the effect of

an export subsidy on the changes in the comparative prices of these cottons. This accounts for the fact that the Liverpool price of Brazilian Sao Paulo cotton is seldom more than 5 or 6 percent below the Liverpool price of American Middling 7/8.

Table 2.- Cotton: Spot price per pound, specified growths at Liverpool, specified periods

Season, month or day	American		Indian		Egyptian		Brazilian	
	:		:		:		:	
	:		:		:		:	
	:		:		:		:	
	:		:		:		:	
	Middling	Low	Av. 3 types 1/	As a %	F. G. F. Uppers	As a %	Fair, Sao Paulo	As a %
	7/8	Mid-	Actual:of Ameri-	Actual:of Ameri-	Actual:of Ameri-	Actual:of Ameri-	Actual:of Ameri-	Actual:of Ameri-
	inch	ling	can	can	can	can	can	can
	:	:	:	2/	:	Middling	:	Middling
	Cents	Cents	Cents	Percent	Cents	Percent	Cents	Percent
10-yr. av. :								
1927-28 to :								
1936-37 :	14.50	13.60	10.88	78.3	17.12	117.9	14.08	97.7
1936-37 :	14.62	13.16	11.07	79.8	17.40	119.0	14.12	96.6
1937-38 :	10.31	8.78	8.02	83.9	13.10	126.7	10.18	98.7
1938-39 :								
Aug. :	9.76	8.44	7.38	81.0	12.30	126.0	9.46	96.9
Sept. :	9.59	8.29	7.07	79.1	12.27	128.0	9.27	96.7
Oct. :	10.25	8.96	7.22	75.0	13.03	127.1	9.78	95.3
Nov. :	10.04	8.81	7.28	77.3	12.63	125.8	9.63	95.9
Dec. :	10.02	8.56	7.16	77.0	11.89	118.6	9.54	95.1
Jan. :	10.10	8.64	7.13	75.9	11.50	113.9	9.61	95.2
Feb. :	10.02	8.55	7.02	75.6	11.56	115.4	9.53	95.1
Mar. :	10.17	8.71	6.94	73.3	11.58	113.8	9.68	95.2
Apr. :	9.67	8.21	6.98	78.2	10.90	112.7	9.19	95.0
Apr. 21 :	9.73	8.27	7.10	78.9	11.02	113.3	9.24	95.0
Apr. 28 :	9.75	8.29	7.18	79.6	10.77	110.5	9.26	95.0
May 5 :	10.30	8.74	7.43	78.0	10.84	105.2	9.71	94.3
May 12 :	10.40	8.84	7.43	77.2	10.81	103.9	9.81	94.3
May 19 :	10.80	9.24	7.59	75.7	11.37	105.3	10.02	92.8

Compiled from reports of the Liverpool Cotton Exchange except for the last three weeks which are from cables to the Bureau of Agricultural Economics or from reports of the New York Cotton Exchange. Prices were reported in pence per pound and converted to cents per pound at current rates of exchange.

1/ Includes Fully Good Broach, Fine Oomra #1, and Fully Good Sind.

2/ Average of American Middling and Low Middling.

EXPORTS

Domestic exports still exceptionally low

The 178,000 running bales of American cotton exported in April were only 47 percent as large as exports during April last year and were the smallest for the month in more than half a century. The 2,964,000 bales exported during the 9 months ended April were only 59 percent as large as the unusually small exports during the first 9 months of last season, and were the smallest for the period in 57 years. As compared with the corresponding period during the 10 years 1923-24 to 1932-33, exports in April and from August to April this season showed declines of 62 and 56 percent respectively.

Exports during the first 3 weeks of May were less than half the unusually small exports in the corresponding period last season. The total for the season through the third week of May was only about 3,100,000 bales. The total for the 12 months ended July 31 may be considerably less than 3,500,000 bales. Average annual exports during the 10 years ended July 1933 totaled 7,880,000 running bales.

In addition to the several factors frequently mentioned in earlier reports as contributing to the unusually small exports this season, the exceptionally narrow spread between prices of American cotton in the United States and in foreign countries probably has been a factor during recent weeks. With prices of American cotton in Liverpool, for example, only 0.60 to 1.51 cents per pound higher than in New Orleans, the exporter or importer who bought in New Orleans and sold in Liverpool at the quoted prices would not find such transactions profitable.

Exports from India, Egypt and Brazil much larger than last year

Exports from Egypt in April were 48 percent larger than in April last year, but for the 9 months ended April were slightly less than a year earlier. Exports from India were 23 percent larger this March than last and exports from Brazil in February (the last month reported) were 148 percent larger than in February 1938. For the first 8 months of the season, exports from India were 54 percent larger than a year earlier. Exports from Brazil during the first 7 months of the season were 25 percent larger than in the corresponding period last season, and the largest for the period in history. (See table 3.)

Table 3.-Cotton: Exports from specified countries, average 1923-24 to 1932-33, and seasons 1936-37 to date

	Apr.					Aug. to Apr.				
Country of origin and destination	10-yr.av. 1923-24	1937	1938	1939	pct.of 1938	10-yr.av. 1923-24	1936	1937	1938	pct.of 1937-38
	1,000 run. bales	1,000 run. bales	1,000 run. bales	1,000 run. bales	Per-cent	1,000 run. bales	1,000 run. bales	1,000 run. bales	1,000 run. bales	Per-cent
U.S. to										
Germany	99	74	26	15	57.7	1,585	574	613	271	44.2
United Kingdom	98	64	79	20	25.3	1,557	1,026	1,473	371	25.2
France	38	12	21	7	33.3	743	632	694	326	47.0
Italy	47	38	29	14	48.3	565	313	438	243	55.5
Spain	17	0	0	1/	---	238	1/	0	16	---
Belgium	11	7	12	4	33.3	159	139	171	80	46.8
Canada	17	17	14	14	100.0	169	224	197	166	84.3
Japan	72	112	121	57	47.1	1,101	1,355	559	777	139.0
China	19	1	8	17	212.5	236	13	19	77	405.3
Other coun. .	54	43	67	30	44.8	443	486	870	637	73.2
Total	472	373	377	178	47.2	6,796	4,762	5,034	2,964	58.9
Egypt to										
United Kingdom	37	42	38	78	205.3	469	545	471	463	98.3
France	14	17	15	21	140.0	154	176	196	150	76.5
United States	15	5	2	5	250.0	142	56	31	27	87.1
Germany	9	15	15	14	93.3	86	120	165	159	96.4
Italy	6	18	7	6	85.7	78	91	93	90	96.8
Japan	4	6	12	12	100.0	55	200	67	120	179.1
British India	2	6	8	11	137.5	20	76	109	71	65.1
Other coun. .	18	39	25	34	136.0	188	325	296	296	100.0
Total	105	143	122	181	148.4	1,192	1,589	1,428	1,376	96.4
British India to		Mar.					Aug. to Mar.			
Japan	196	218	89	102	146.1	900	1,321	390	725	185.9
Italy	32	36	10	9	90.0	200	131	66	54	81.8
China	45	1/	11	30	272.7	180	11	48	149	310.4
Belgium	21	53	13	16	123.1	121	183	76	72	94.7
Germany	24	28	13	17	130.8	123	111	84	107	127.4
United Kingdom	24	86	41	45	109.8	120	297	155	200	129.0
France	22	24	12	23	191.7	88	91	45	86	191.1
Other coun. .	25	41	31	28	90.3	84	171	142	155	109.2
Total	389	486	220	270	122.7	1,816	2,316	1,006	1,548	153.9
Brazil to		Feb.					Aug. to Feb.			
Japan	2/	1	1/	30	---	2/	66	56	169	301.8
United Kingdom		19	10	8	80.0		189	131	148	113.0
Germany		23	18	16	88.9		169	265	117	44.2
France		5	3	6	200.0		26	27	79	292.6
Italy		8	1/	2	---		30	4	36	900.0
Netherlands ..		1/	1	1/	---		15	8	20	250.0
Belgium		2	3	1	33.3		16	15	17	113.3
Other coun. .		6	5	36	720.0		38	43	103	239.5
Total	5	63	40	99	247.5	71	549	549	689	125.5

Compiled from official sources. 1/ Less than 500 bales. 2/ Not available by countries.

DEMAND AND CONSUMPTION

UNITED STATES: Mill activity continues high despite recent decline

Total cotton consumption of 547,000 bales by domestic mills in April was nearly one-third larger than in April last year and slightly larger than the preceding 10-year April average. Consumption was the third largest for the month in 10 years. The daily rate of consumption in April was slightly less than in March and the index of cotton consumption adjusted for seasonal variations declined to 106 in April compared with 114 in March. In April last year this index which is released by the Federal Reserve Board was 77. During the 9 months ended April, domestic mills consumed 5,150,000 bales, one-sixth more than a year earlier and 10 percent more than the average for the preceding 10 years. With one exception (1936-37) this was the largest consumption for the period since 1928-29.

Preliminary weekly indexes of seasonally adjusted mill activities compiled from trade sources indicate that domestic mill activity in the first half of May was maintained at a rate fully equal to the April level. On the other hand, it has been reported in the press that activity, particularly in the print cloth and fine goods mills, has more recently declined considerably. The low manufacturing margin (the average for 17 constructions of grey cloth is now the lowest in 6 years) is, no doubt, tending to retard domestic mill activity. The low manufacturing margins in turn are apparently due in part to the relatively high level of spot cotton prices in relation to prices of new crop futures contracts. Such a situation tends to encourage the buyers of cotton textiles to postpone purchases or to restrict purchases to a minimum with the hope of obtaining textiles at lower prices after the new crop begins to move. This probably is partly responsible for the fact that the manufacturers sales of cotton textiles have apparently been below production in most of the past several weeks.

There have been a few periods of short duration since the first of April, however, when sales were reported as considerably in excess of production. Nevertheless a number of reports have appeared recently which indicate that manufacturers stocks of cotton textiles are comparatively large in relation to unfilled orders. Despite a slight strengthening in manufacturers prices of unfinished cloth, mill margins continued narrow during the third week of May as cotton prices advanced to a new high for the season. The difference between the price of cotton and its estimated cloth equivalent (based on 17 constructions of unfinished cloth) averaged about 9.50 cents during the first half of May compared with 10.01 cents in April and 11.12 cents in May last year. During the 10 years ended with 1937, the average margin for May was 12.10.

The 12,600 bales of American Egyptian cotton consumed from August through April were nearly three times the exceptionally small consumption (4,800 bale) during the first 9 months of last season. The 42,700 bales of Egyptian cotton consumed to the end of April this season compared with the 39,250 bales consumed during the corresponding period last season.

EUROPE: Cotton mill activity
well maintained

Mill activity in Europe during April and early May appears for the most part to have been well sustained by yarn and goods orders booked some time earlier, or by the placing of substantial contracts for military and defense types of goods. In a few countries the rate of activity appears to have increased somewhat. New textile business, however, except in the form of government orders, appears to have fallen off measurably. Uneasiness as to the stability of international political relations combined with changes and probable changes in the raw cotton price level not only tended to restrain buying initiative but in some instances to discourage the acceptance of orders as well. To which of these conditions should be ascribed the greater importance is not clear. It seems reasonable, however, to believe that to the ultimate cloth consumer considerations of the international situation as affecting his security or income have excluded most others. In continental countries a decrease of retail trade seems to have been a corollary to the calling of reservists to active duty. At the other end of the market chain the raw cotton importer also has unquestionably found it difficult to carry on operations as a result of these developments. Taking the market chain link by link from the raw cotton importer to the spinner, manufacturer and other intermediaries finally to the consumer, it appears that there is some tendency for considerations of the price situation to diminish in importance. But in general it appears that the weight of unsettled political conditions tends relatively to increase. It seems also to be true that as one approaches geographically the frontiers which might be affected by open hostilities an increase of trade caution is to be noted.

The nearest approach to actual cessation of business in recent weeks, however, appears, from such information as is available, to have been in the import buying of American cotton. The disposition on the part of importers to avoid the risks of unnecessary commitments seems to be general. At the same time, with European prices partially discounting an export subsidy, offers from the United States, when obtainable, have been said for the most part to be so far out of line as to be impracticable.

European stocks of American cotton, are, however, clearly showing the effect of the draft of mill requirements and the subnormal imports of the current season. In a number of the more important consuming countries the matter of raw material supplies for the remainder of the season is already a subject of greater than ordinary interest. Notwithstanding the extensive substitution of other growths, the approaching exhaustion of the European stocks of American cotton seems rapidly to be creating a condition in which once again imports may more nearly approximate current rates of consumption than in the past few weeks.

United Kingdom 1/

The British cotton textile industry accumulated a substantial backlog of orders through February and early March, which has since been supplemented by large-scale government orders for defense materials. This has sustained mill activity in April at about 65 to 70 percent of normal in weaving and 75 to 80 percent in spinning---the best levels of the year. It has pushed the average rate of mill takings of raw cotton to 57,700 bales a week, the highest monthly average in more than a year. At the same time, political tension throughout April and confusion as to the significance of price developments combined to keep fresh initiative dampened in the more strictly commercial field. Buyers were disposed to suspend negotiations or at least to restrict commitments, while in the export section sellers to the Near or Far East tended also to move with caution. It is believed that in April total sales (government contracts included) fell considerably below production either of yarn or cloth. The judgment of reliable observers seems to be, however, that textile demand is not now fundamentally bad and that, with signs of a clearing of the chief elements of uncertainty, improvement in business turnover should follow.

Except for the Dominions, export buying has not been of important proportions. Although buyers for India have not been absent from the market, conditions of trade with that country have been further obscured by the rejection in the Legislative Assembly on April 17 of the bill to give effect to the schedule of duties provided for in the Anglo-Indian Trade Agreement announced in March. Egyptian trade has apparently also been impeded by continued delay in giving legislative effect to the government's reciprocal quota arrangements announced in December of last year. Continental buying is said to have been reduced sharply. Elsewhere trade has been at a halting pace. Exports of 132.7 million square yards of piece goods in March were markedly heavier than in any month of the preceding 11 and the best since January 1938. Exports of 13.3 million pounds of yarn exceeded those of any preceding month since August 1937 and were more than 50 percent above the low levels to which exports had fallen in May and June of 1938. In April, however, both yarn and cloth exports declined materially and with one exception were about as low as or lower than in any preceding month for many decades.

April sales of cloth to the home market showed somewhat more activity than export sales, though buying (except of government types) tended to taper off toward the end of the month. An important feature of the month was the purchase of cloth to meet government defense requirements necessitated by the doubling of the territorial army, the decision to conscript annually some 200,000 or more additional men for the militia and recruiting for the auxiliary and other defense services. Recently government contracts are said to aggregate some £ 4,000,000 (roundly \$19,000,000) in value, a figure regarded as likely to be materially increased. Although it appears that orders thus far have not been widely distributed, the fact that early deliveries are wanted is expected to have an immediate influence upon mill activity. March indices of retail trade showed a small gain over the same

1/ Based largely upon a report prepared by Agricultural Commissioner Arthur W. Palmer, London, England, dated May 8, 1939.

month of 1938. With Easter trade mainly in March and with some possible reserve in consumer buying under the conditions prevailing, April may not have shown its usual seasonal increase. But conditions basic to retail trade continued to be reasonably good.

A primary concern of the trade throughout April was the problem of individual firms in adjusting uncompleted or projected operations to a prospective American export subsidy, with its effects upon the complex international structure of dependent and interdependent prices of raw cotton, yarn and cloth. Considerable unsettlement resulted from confused and conflicting reports reaching the United Kingdom as to the probabilities, with respect to the actual application of a subsidy, its amount, and the methods and time of application. Prices fluctuated somewhat erratically according to the tenor of the news of the moment.

During April and the first half of May British prices of American cotton were about 1/2 to 1 cent lower relative to prices in the United States than prices considered to represent normal parity or spread. With this situation, reports indicate a general disposition among conservative firms to avoid new commitments except as a protection to existing market conditions; consequently import buying of American cotton has been regarded as impracticable. The relatively small stock of American cotton at British ports and afloat to the United Kingdom, however, means that import buying will not be restricted as much as if such stocks were more nearly normal. Nevertheless, it is reported there is a scarcity of cotton of desirable grades in lengths shorter than 1 inch. This is also retarding purchases.

The proportion of American in the total forwardings to British mills of cotton of the more directly competitive growths continued its decline in April. Though not down to the low points reached in the season of 1936-37, the ratio of American to other growth was, with the exception of 3 months in that season and of 3 months in 1934-35, the lowest certainly since 1925 and probably since the early 1860's.

France 2/

The French cotton textile situation in April presents also a picture of sustained or possibly accelerated mill activity in the face of unusually small textile sales to non-Government buyers. The prolongation of this period of dullness from mid-March, while a source of concern to makers of some types of goods, appears as yet to have had no appreciable effect on rates of operation. Government orders have afforded considerable support, and manufacturers of government types are said now to be supplied with contracts which will ensure about the present rate of activity ^{for some time.} The order-book position of French spinners as a group is believed still to be strong, with sufficient contracts in the aggregate to sustain spindle activity at current rates well through the summer. Private consumer buying in the home

2/ Based largely upon a report proposed by Mr. Palmer from data supplied by American Consulates at Havre, Lille and Strasbourg.

market was reported as comparatively small, a factor which has doubtless had its influence on mercantile buying initiative. Market comment insists, nevertheless, that large goods requirements remain to be covered and instances are reported of potential contracts arranged as to price and deliveries but held in abeyance pending clarification of the international outlook. The seasonal peak of export selling to the colonies is now well past, but the French industry, following the recent despatch of a special mission to the United States, entertains hopes of gaining some trade with the United States in goods of the types formerly supplied by Czechoslovakia.

In the raw cotton market a slight revival of spinner buying was reported. Spinners, in general, however, especially on the Northern and Eastern frontiers, are disposed to use up stocks in the mills and to make only the most necessary purchases. It is expected that in the event of mobilization, stocks of cotton in excess of 10 days' requirements will be requisitioned and that mills working on government orders, or under government instruction as to production will have their raw material provided by the government. Under such circumstances the price to be fixed for cotton requisitioned is reputed to be the average during the 2 weeks previous. Estimates at the end of April of the quantity of cotton which spinners would normally have to purchase to cover operations up to September on the basis of a 45-hour working week, were raised to 100,000 bales. A slight increase was reported during the month in the volume of sales of American cotton for delivery out of the new crop, though spinners for the most part were deferring commitments awaiting the outcome of pending American cotton legislation.

Prices in France fluctuated during April in keeping with the general European pattern, with the parity or spread between prices in France and in the United States having narrowed to a point where most of the few offers received from American exporters were considered unsatisfactory. Brazilian cotton, on the other hand, was said to have been offered freely during the month, and at price spreads regarded as attractive. Import buying of the two growths during the month is estimated at 1,500 bales of American and 12,000 bales of Brazilian.

Germany 3/

Activity in the German textile industry was well maintained during March and April, especially considering the limited raw material supplies and labor available. The adjustment of the former Czechoslovakian textile industry to the economy of Greater Germany, however, has necessarily been slow and continues to occupy much attention. German textile officials are now viewing 1939 as another year which will be noted for drastic changes and adaptations of the textile industry to government planning in the realms of raw material supplies, production and marketing. The reduction of raw material contingents which the authorities ordered, effective January 1, 1939

3/ Information relating to Germany, Poland, Switzerland, the Netherlands, Denmark, Norway and Finland supplied by the office of Loyd V. Steers, Agricultural Attaché, Berlin.

as the result of the incorporation of Sudetenland, became even more acutely felt by mill owners not long after the establishment of the German protectorate over Bohemia and Moravia. Every effort is being made, however, to supply the very active demand for household textiles, the authorities having allotted additional quantities of raw materials for the production of such goods. Plans for increased production of synthetic fibers are also proceeding apace.

As a result of the shortage of labor, numerous mills report that the utilization of their plants has often been only from 70 to 80 percent of capacity. It is also pointed out that the working day in the textile industry has continually been extended far beyond the standard 48-hour week. Despite the labor supply difficulties, turnover has increased slightly since preference has been given the production of goods urgently needed and required by the population. At present, the Government is said to be encouraging another plan whereby every German textile concern will be able to improve rapidly its technical facilities in order that the industry as a whole may attain the maximum of mechanical and managerial efficiency in the shortest possible time.

Imports of raw cotton into Germany proper during March were equivalent to 89,300 bales of 478 pounds compared with 78,500 bales imported a year ago. American, British Indian and Egyptian cotton accounted for an increased proportion of the total imports of raw cotton during March. There were also minor increases in cotton imports from Iran, the Belgian Congo, China and Mexico. Imports of raw cotton from Brazil slumped from 27,700 bales in February to 15,650 bales imported during March, 1939.

Both imports and exports of cotton yarn and cotton cloth rose markedly during February and March, 1939, compared with the same months last year. Nevertheless textile trade circles appear somewhat disappointed over foreign business. Special attention is now being given the promotion of export business so that more foreign exchange may be available for raw material purchases.

Reports from Bremen are that cotton importers there are facing a decisive shift in policy as one result of the changing raw material situation. Through the newly formed firm, Bremer Baumwoll A. G. it is planned that a united front will be organized to bring about joint action in combating the boycott movement and other developments which have disrupted the Bremen trade in recent months.

Bohemia and Moravia

The recapturing of the lost export markets for Czech textile goods is at present a problem of large importance to Greater Germany's textile industry. This is largely because raw material reserves in the region are negligible, in addition, the textile authorities are determined to have raw material needs paid for out of foreign exchange derived from exports.

The textile and clothing industries of what is now the Protectorate of Bohemia and Moravia have exported in the past an average of about 50 percent of their total output. "The important problem to be faced now", according to one writer in the Textil-Zeitung, "is whether exports from the Protectorate should be considered as German goods, and receive correspondingly unfriendly reception abroad, or whether it is not possible to secure a proper and distinct status, through a special mark of quality, for the products of Bohemia and Moravia in order to designate their origin." The description of goods from this region as "Czech" goods has been definitely rejected because it was felt that such a designation might cause misunderstandings and errors. It is believed in textile circles, however, that a special quality designation for Protectorate goods will be a distinct aid in marketing such goods and thus bring in not only sufficient devisen for the financing of goods produced in this region, but an "excess of foreign exchange to be used in the interest" of other parts of Greater Germany.

Poland

Reports from Lodz indicate that textile exports have reached higher levels in both volume and value in recent weeks. Best markets for cotton yarn have been in Norway and Holland, while the bulk of the exports of cotton cloth have gone to the Union of South Africa, Palestine, and Netherlands Indies.

The Polish Institute for Economic Research recently stated that the textile industry of Poland has shown a definite trend in the direction of increased production. It was intimated that this trend should continue for the next few months, unless international complications should check it. It was also reported that a nearly completed textile enterprise will soon begin operations in the new "Central Industrial District" in Baranow.

The trade press of both Germany and Poland has been carrying short news items recently to the effect that it is expected that Great Britain may arrange in the near future for the formation of a company with a capital of £ 10,000,000 for the purpose of financing Anglo-Polish trade. To date there appear to have been no official confirmation of this reported plan.

Switzerland

Although Swiss economic conditions improved in most fields of activity during the first four months of 1939, there was no notable change in the situation in the textile industry. Exports of certain classes of textiles increased but the less favorable trade relations with Germany and the disorganization of the former Czechoslovak market have been discouraging business factors. It has been reported that, due to the uneasiness resulting from international political developments, the Swiss Government and certain trade groups are beginning to accumulate emergency stocks of certain essential raw materials. Whether cotton is to be included has not yet been indicated.

A recent report by the German Chamber of Commerce in Switzerland points out that the problems arising from the boycott movement and the adverse balance of the clearing account ^{4/} will need to be solved if economic relations between the two countries are to be maintained on the usual friendly basis. More intensive trade promotion activities, coupled with new trade negotiations for the purpose of gaining further Swiss concessions, are suggested as solutions of the present German-Swiss trade difficulties.

The Netherlands

Activity in the textile industry of the Netherlands continued to lag behind last year's levels and protection of the home market as well as measures to stimulate the market in the Dutch East Indies have absorbed much of the attention of textile trade circles.

Imports of raw cotton were lower in February than during the same month a year ago, but in March raw cotton imports climbed to a level considerably higher than in March 1938. Imports of raw cotton from August 1, 1938, to the end of March totaled 170,600 bales of 478 pounds net compared with 183,700 bales a year earlier. Yarn imports were substantially larger this March than last, but exports of cotton yarn fell from 884,000 pounds in March 1938, to only 622,000 pounds in March this year. Imports and exports of cotton cloth were at levels approximately the same as a year ago.

Denmark

Activity in the Danish textile industry was well maintained throughout March and appears to have continued high during April and early May, according to latest available reports. The employment situation in the industry is distinctly better than it was a year ago, and the industrial production index (1935 = 100) stood at 110 in January and February this year compared with 104 a year ago. The clothing industry indices have also registered substantial gains in recent months. Demand for cotton textiles in Denmark has been good, prices have remained reasonably high but at slightly lower levels than in 1937 and 1938, and buying power has been increased as a result of good harvests during the last season.

Norway

Activity in the Norwegian textile mills has been well maintained although prices are lower than in 1937 and 1938. Raw cotton consumption is reflected in imports which have risen appreciably compared with 1937-38. Imports of raw cotton from August 1, 1938, to March 1, 1939 totaled 13,394 bales of 478 pounds net, compared with 10,850 bales during the same period last season and with 9,200 bales in 1936-37. Imports of cotton yarn and manufactured cotton textile goods were larger than during the same period a year ago.

^{4/} Germany's trade deficit in Swiss-German trade is approximately 50,000,000 Swiss francs, (\$11,000,000) according to reports.

Finland

Activity in the Finnish textile industry was fairly well maintained in March, and apparently in April. The industry also appeared to be well supplied with orders that would aid in maintaining a level of activity about equal to that of a year ago. The index of working hours in the industry declined to 121.6 (1926 = 100) in March 1939, compared with 128.4 a year ago.

It is understood that the synthetic fiber factory at Enso, with a capitalization of Fmk. 70,000,000 (\$1,400,000) will soon be able to supply the Finnish textile industry an increasing proportion of its synthetic fiber requirements.

Imports of raw cotton, (which had sagged earlier in the year), rose in February and March, and from August 1 last to April 1, 1939 totaled 58,400 bales of 478 pounds net compared with 51,600 bales a year earlier. Raw cotton was imported chiefly from the United States, Brazil, Egypt and via Great Britain. Cotton yarn exports were well maintained and were destined chiefly for Norway, Turkey and Sweden while cotton fabrics exports found their best markets in Sweden, Norway and Egypt.

Italy 5/

Little evidence of improvement in the Italian cotton trade was discernible in April. Most reports indicate that on the contrary, conditions went from bad to worse during the month, particularly as to export trade, much of which was reported halted temporarily by the hesitation of Italian exporters in despatching shipments, and of foreign buyers in placing orders. The domestic situation also deteriorated although it supplied the bulk of the demand.

The international political situation again furnished the reason for the unpromising developments in both the foreign and domestic market for Italian goods. The tension was higher during April than at any time since last September. Fear of losses of shipments and payments therefor prevented both Italian manufacturers and foreign buyers from placing or executing many foreign orders which otherwise would have been carried out. The mobilization of some hundreds of thousands of men had a markedly depressing effect upon the domestic trade. Sales of American cotton continued low as a result of these conditions as well as of the limited offers of American cotton which Milan brokers were able to obtain.

A further contraction of the Italian market for raw cotton appears to have been caused in April by reactions to the tense, international political situation, particularly by the restriction, or withdrawal, of bank credits for Italian purchasers. Thus the limited orders which some consumers might have placed were further reduced by their inability to finance shipments. Possible sales of American cotton were reduced by this development, it is said. The outlook for this trade during the near future remains uncertain and, on the whole, unencouraging.

5/ Information received from the American Consul General at Milan.

Sales of Italian cotton goods abroad held up well during the first quarter of the year 1939, considering the existing conditions, but there was a total decline of about 9 percent as compared with a year earlier. In spite of the decline in exports and imports of cotton goods, the balance of the country's foreign trade in cotton and cotton goods showed a marked improvement as compared with that of the preceding year. While exports have supplied enough foreign exchange to pay for imports of raw cotton, they have reached so low a value as to make it impossible, under present rules governing the use of foreign exchange for the purchase of raw cotton, to increase such purchases to any great extent. A long time probably will be needed to put the trade back where it was in this respect a few years ago.

The receipt of 66,000 bales of all descriptions of cotton at Italian ports during April was exceptionally low for this season and compared with 78,000 bales which arrived in Italian ports during the preceding month and with 81,000 received during April 1938. The arrivals included 30,000 bales of American cotton as compared with 34,000 bales in the preceding month and with 49,000 bales in April 1938.

U.S.S.R. 6/

A noticeable improvement took place in the cotton textile industry of the U.S.S.R. during the first quarter of 1939, when for the first time since 1936 output was fully up to the official plan; it was 12 percent below planned expectations during the corresponding period of 1938. Compared with a year ago, production in January-March, 1939, is reported to have shown an increase of 11.7 percent - the increase amounting to 5.3 percent in January, 15.6 percent in February and 14.4 percent in March. This improvement has been achieved despite the fact that not all enterprises have as yet been successful in bringing about the desired increase. One hundred twenty-two thousand new spindles were installed during the three months ending March 31, 1939, which is more than provided for by the plan for this period. This, as well as improvements in the organization of the process of production and higher productivity of labor are indicated to have been the main factors contributing to the pick-up during this period. In fact, labor productivity has been stated to have shown an increase of fully 14.5 percent, which is no doubt largely due to the measures taken to reduce the unsettled labor conditions and to increase working discipline.

Production of cotton fabrics by enterprises under the jurisdiction of the Commissariat of the Textile Industry of the USSR ^{7/}, which accounted for about 75 percent of total production of fabrics during the past two years, was 711,850,000 yards or 100.4 percent of the plan for the first quarter of 1939. Total output of the whole textile industry - that is, including those factories which are not under the textile commissariat of USSR - apparently reached 971,120,000 yards during the first quarter of 1939, a figure recently reported by the press. Plans for the second quarter of 1939 call for a 7 percent increase

6/ Information supplied by L. Orina, Belgrade Office.

7/ Formerly part of the Commissariat of the Light Industry.

in output as compared with a year ago, and efforts are being made to avoid the seasonal decline during the late spring and summer months in recent years. During these months the unsettled state of labor reached its peak and has been greatly responsible for the unsatisfactory work of the industry. Shortage of workers is evident in the cotton textile industry of the Soviet Union, the deficit totaling 40,000 persons, according to a recent statement by the Commissar of the Textile Industry.

The quality of the fabrics produced is also reported to have improved, with the share of first-grade goods increased. However, it is reported as still far from satisfactory, and the assortment of goods does not answer stipulated requirements.

ORIENT: Indian mill consumption continues exceptionally high; Japanese and Chinese much below normal

Cotton mills in India consumed about 240,000 bales of 400 pounds net Indian cotton in April, or about the same as in each of the 2 preceding months, but 15 percent below the peak consumption reached in December. Except in 1938, this was the largest April consumption on record. The total of 2,330,000 bales consumed during the 9 months ended April were slightly larger than in the like period last season, which was the largest consumption for the period on record up to that time.

Cotton mills in China, including Manchuria, are estimated to have consumed about 145,000 bales of cotton during April, according to radiogram from O. L. Dawson, Agricultural Commissioner at Shanghai. This was about the same as the estimated consumption in March, and much larger than in March last year, but it was only about two-thirds as large as the rate of consumption in the months immediately prior to the beginning of the conflict with Japan in the summer of 1937. For the 9 months ended April, cotton consumption by mills in China probably totaled about 1,250,000 bales. This is considerably larger than the corresponding period a year earlier. It was, however, probably the smallest for the period, with that exception in 10 years. The latest check of the situation in Shanghai, according to Mr. Dawson, shows that more cotton has been purchased for import than had been indicated previously. Such purchases for the season to date are now calculated at about 750,000 bales of 500 pounds. Total purchases for the season are expected to exceed 1 million bales in the event there are no new important regulations affecting trade. Such purchases are unusually large despite the comparatively low level of mill consumption in China this season. This is accounted for by the reduced production of cotton in China and the difficulties in getting cotton from interior points to mill centers and the comparatively large exports of Chinese cotton to Japan. In this connection, it is noted that recent press reports state that the North China Cotton Association opened for business on April 1 with members composed of both Japanese and Chinese merchants. The objects of the Association are said to be: (1) To hasten the increased production of high grade cotton in North China, (2) to provide a smoother flow of supply of cotton in relation to demand and (3) to stabilize cotton prices.

Preliminary yarn production estimates indicate that cotton consumption by Japanese mills in April declined slightly as compared with March and was probably one-fifth to one-sixth less than in April last year which was already considerably less than in either of the 3 preceding years. Total consumption by mills of the Japanese Cotton Spinners Association from August through April probably totaled about 1,875,000 bales of 478 pounds compared with 2,599,000 bales in the like period last season and the record high consumption for the period of 2,753,000 bales established in 1936-37. Exports of cotton cloth from Japan in March were the largest with the exception of December 1938 since the early part of 1938, reflecting encouraging sales made last December and January, but in April declined materially. The falling off of export sales during the past 2 or 3 months makes it seem quite likely that exports during the remainder of the season will also show a material decline as compared with March. The 1,684 million square yards of cloth exported from Japan during the 9 months ended April were about 14 percent less than export during the corresponding period last season. This, together with the regulations requiring the mixture of synthetic fiber with cotton in the production of goods for sale in Japan and other areas where Japanese currency is used, largely account for the reduction in the quantity of cotton manufactured by Japanese mills during the current season.

ACREAGE PRODUCTION STOCKS AND SUPPLIES

American Cotton: "Free" stocks small despite record high total

Domestic stocks of American cotton totaled approximately 15 million running bales on May 1. This was 1,800,000 bales larger than on May 1 last year when stocks were the largest for the period in history up to that time. Total domestic stocks as of May 1 this year were 85 percent above the average for the 10 years ended 1937. Of the total stocks on May 1 this year about 11,370,000 bales were held as collateral against Government loans, leaving only a little more than 3,650,000 bales of so-called "free" American cotton. This represented a decline of 42 percent below "free" stocks as of May 1 last year and 34 percent below the average of such stocks as of May 1 during the preceding 10 years. Stocks of American cotton in foreign countries on May 1 this year were probably about two-thirds as large as a year earlier and only about half the May 1 average for the past 10 years.

Most of the 1939 American crop has been planted but there will be no official acreage estimate until July 8. Practically all of the private estimates which have appeared in the press have placed the acreage below the national acreage allotment of about 27½ million acres. The national acreage allotment was approximately the same this year as last. The latest official estimate of the area planted in 1938 was 25,018,000 acres. Weather conditions in the Cotton Belt during the 2 weeks ended May 24 (except for low temperatures during a part of the period) were mostly favorable to the crop, according to releases by the Weather Bureau.

Foreign Cotton: Early reports indicate reduced
1939 acreage or production in Egypt and China

As indicated last month, it is expected that the 1939 cotton acreage in Egypt will probably be somewhat smaller than that of last year, according to information furnished by the American Consulate at Cairo. This would follow a reduction of 10 percent in acreage planted in 1938 as compared with 1937. Yields per acre in Egypt in 1938 were 12 percent below the average for the preceding 10 years. It is quite possible, however, that higher yields may result this year in a crop equal to or materially in excess of that of 1938, despite a reduction in acreage.

Present indications point to a somewhat smaller Chinese crop in 1939 than in 1938 according to a recent radiogram from Agricultural Commissioner O. L. Dawson at Shanghai. This is based in part upon indications that dry weather has adversely affected cotton planting in North China.

No material change is expected in the 1939 cotton acreage of the U. S. S. R., according to the most recent information received from that country. The planned acreage of the collective farms which account for practically all of the cotton area of the Union is said to be about 4,942,000 acres as compared with 4,893,000 acres in 1938.

Foreign countries producing 95 per cent or more of the total annual foreign production since 1920

Continued-

